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Comment:

Attached is a copy of Ambassador Esserman's remarks to yesterday's CSIS conference. Our apologies for the delay in transmitting this document.

AMERICAN TRADE RELATIONS WITH INDIA

Ambassador Susan Esserman
Deputy U.S. Trade Representative

Center for Strategic and International Studies
Washington, D.C.

February 24, 2000

Good morning, and thank you all very much.

We meet at a propitious time— on the eve of the first Presidential trip to India in more than two decades; at a time when India and the United States share a number of common goals in the trade arena based on our areas of mutual strength and interest; and most particularly, when India and the United States, as leaders in the information technology field, have the potential to expand dramatically economic opportunities for our citizens and improve the quality of life for all segments of our societies.

CONTEXT OF US-INDIAN RELATIONS

To start with the fundamental point, our Administration hopes to see a strong and prosperous India, which is a leader and full partner in a growing and vibrant world economy.

A strong bilateral relationship is first a matter of mutual interest and is also wholly in keeping with the high aspirations of our two countries. We share institutions and values that are the building blocks of a closer economic partnership: Our governments rest upon democracy, the rule of law, constitutional succession, and the rights of the individual. Our countries and our Constitutions promote intellectual freedom and vigorous public discourse. Our policies, at their best, reflect shared aspirations for increased opportunity and social justice for all of our citizens.

Moreover, India and the United States, the world's largest and the world's oldest democracies, should work together to build a global trading regime that reflects these common purposes and aspirations. I believe, on the basis of my own experience in recent months, that we are beginning to forge such a partnership. And I am hopeful that President Clinton's visit will serve to advance the emerging trade dialogue in important ways.

TRADE POLICY AND INDIAN ECONOMIC STRATEGY

While our participation and interest in trade with and investment in India historically have been constrained by a variety of trade barriers and extensive regulations in India, recent economic reforms offer hope of greater opportunities.

Over the last decade, and in the last year in particular, the Government of India has engaged in broad ranging efforts to create the kind of competitive domestic market that stimulates investment and fosters technological progress and long-term growth. The investment, trade and tax regimes have been substantially altered, and the private sector has been given a much more substantial role in banking, civil aviation, heavy manufacturing, power generation, telecommunications – all areas that were until recently the exclusive preserve of the public sector.

In the past year, the pace of economic reform has accelerated significantly. India has implemented a New Telecom Policy, reorganized the Department of Telecommunications, and restructured the Telecom Regulatory Authority. The introduction of the Insurance Regulatory and Development Act within three days of the formation of a new government in October was an impressive signal, as was the passage of the legislation by both chambers of Parliament in early December.

The current Indian government, which set a record in December for legislative action, has also launched a number of promising new initiatives across an impressive range of subjects. New laws and ordinances have liberalized foreign exchange management, strengthened intellectual property, allowed Internet trading of shares, and opened Indian satellites operations, airports and airlines to private participation.

While much work remains ahead, the fruits of domestic liberalization and an opening world economy have already benefitted India:

- India's economy is growing at high rates. In the mid 1990's the average rate of growth averaged higher than 7 percent. Even after the East Asian financial turmoil and general global slowdown, India maintained growth rates of 5 percent.
- India's finances are stable. Inflation hovers between 2 and 3 percent, and foreign reserves have increased substantially, rising by \$6 billion last year alone.
- And of course, India has become a world leader in information technology and appears to be on the way to meeting its goal of being an information technology superpower early in this century.

US-INDIAN TRADE

India's era of reform and economic progress is reflected in our growing trade and economic relationship. Since President Clinton took office, liberalization has helped American energy, manufacturing and other firms invest nearly \$5 billion in India -- creating jobs for Indian families and bringing new technologies to the Indian economy. Our bilateral services trade reached nearly \$4 billion in 1998--nearly double 1994 flows.

And our bilateral goods trade has doubled, reaching nearly \$13 billion in two-way trade

last year. India's total exports to the U.S. have grown rapidly, topping \$9 billion last year, an increase of more than 10% over 1998. This reaches across the spectrum of goods, from agricultural products to manufactures and natural resources.

Likewise, American exports to India have grown. In 1999, we exported a wide variety of goods to India, including almonds; aircraft; computers; fertilizer; heavy machinery and scientific textbooks. More Americans than ever before -- led of course by our million-strong Indian-American community -- are finding opportunities in an opening Indian market.

But India's economic engagement with the United States and the rest of the world remains severely limited. India has, by World Bank estimates of purchasing power parity, the world's fourth largest economy. But India's share of world trade amounts to only a fraction of one percent. This is not a matter of self-reliance, but a policy of self-denial. India's tariff and non-tariff barriers impede its own prospects for higher growth, rising living standards, and technological innovation. These barriers effectively raise the price of goods for families, force businesses and farmers to pay higher prices for inputs; and reduce India's overall growth prospects as competitors in China and Southeast Asia move ahead.

While India's trade barriers constrain U.S. exports to India, they also shut out the products of India's developing country neighbors in Africa, Central Asia, Southeast Asia and the island states of the Indian Ocean.

Many of their products, particularly tropical products, would be very competitive in the Indian market. A free and open Indian market would therefore serve -- much as the European Union does for the Mediterranean world and Central Europe, or the United States for the Caribbean and Latin American states -- as a source of growth and economic stability for a large part of the world; integrating more fully and fairly these developing economies into the global system.

MOVING FORWARD

Most recently we have seen an important sign of trade liberalization in the Indian market. After a WTO dispute panel decision against India's restrictions on imports, India agreed to lift many of the import bans and licensing requirements it has long maintained. This stretches across a very large spectrum of agricultural products, textiles and consumer goods. India will lift import restrictions on 1,400 specific products, some for the first time in fifty years. And it will do so rapidly -- half by the end of March this year, and the other half within a year.

This agreement sends a powerful signal to the investor community of new opportunity to invest and produce efficiently in India. It is critical to India's continued growth and its ability to attract and retain investment that these new policies are adhered to. It is also vitally important that India not undermine its important gains, as some in India have suggested, by raising already high tariffs and surcharges or imposing non-tariff barriers.

To create even a temporary replacement for these barriers would damage American trade interests. But more so India's. This is because the market opening inherent in our agreement is consistent with the goals of India's own reform policies: to help Indian families raise living standards as they gain a wider choice of goods; to give Indian firms opportunities to strengthen their technological base; and give Indian entrepreneurs -- so successful in Europe, the United States, Africa and Southeast Asia -- a chance to create new businesses and sources of growth at home. Indeed, India stands to be the main beneficiary of this new approach.

BUILDING THE 21ST-CENTURY ECONOMY

And the fact is, India has no reason to approach the world economy with anything other than confidence. That is already clear in the fact that India's most successful industries -- software, film, computers -- are those most closely integrated into the world economy.

And India's policies in these areas are admirable. In electronic commerce, for example, India has fostered a dynamic software industry, based on sound engineering and technical expertise, that is world class. Its knowledge base in this area includes some of the world's most imaginative and advanced producers. And, electronic commerce within India is projected to reach \$15 billion in two years. E-commerce clearly is a tool that supports development: for Indian entrepreneurs, and rural collectives, and high-tech businesses hoping to form alliances with overseas partners.

The development of robust trade in information-based services and products, however, depends first of all on our ability to preserve the Internet as a world which today has no borders or domestic walls; and India thus has as much interest as any country in the world in keeping the Internet free of tariffs or other barriers. The role of governments in this new and flourishing area of commerce is quite simple: to make sure that trade is not impeded by the erection of discriminatory trade barriers. India's recent steps to liberalize aspects of the telecommunications sector support this goal, and further steps would greatly enhance growth in e-commerce and other knowledge-bases industries.

Likewise, India's success in software and film show India is capable of world leadership as an exporter in other IT sectors: computers, semiconductors, telecommunications equipment and so on. And as a buyer, access to these goods at the best prices is an essential contributor to a world-class telecommunications and computer networks.

India's decision to join the WTO's Information Technology Agreement (ITA) is clear evidence of India's intention to become a world leader in these fields. By eliminating tariffs and therefore reducing prices for information technology products -- semiconductors, computers, and related equipment -- this agreement improves the competitiveness of the Indian software industry and links it with markets around the world. And together we can do still more to enhance competitiveness in the IT sector: with India's support for a second ITA adding products such as printed circuit board manufacturing equipment, consumer electronics, and radar and

navigation equipment.

There is a striking lesson of course in this: unlike other sectors of the Indian economy, which have long been subject to government control in the name of development, India's greatest international success is in the area where the government allowed Indian entrepreneurs and individuals to take full advantage of their skills and ideas in an open marketplace. That, course, is exactly the same story behind the growth of the Silicon Valley and the Internet. It is a lesson we have learned, and as in other countries, that applies more broadly than just to the IT sector.

India and the US also have mutual interests to pursue in the WTO negotiations recently initiated on services and agriculture. We need to work productively together to pursue our mutual interests in opening markets around the world to our world class products.

The services negotiations, in particular, plays to India's strengths in knowledge-based industries. By opening trade in areas such as software distribution, telecommunications, engineering, and insurance and other financial services, we can promote the conditions that helps attract and retain investment, as we also spread beneficial technologies more rapidly around the world.

In agriculture, we can reform world trade in ways that help us both, but are especially important to the developing world. We can cooperate to create open markets that increase the opportunities available to farm families; that strengthen food security by ensuring that nations have access to diverse supplies; and that ensure that farmers can use modern science to improve productivity and reduce pressure on land and water. The United States has called for the elimination of agricultural export subsidies. These hurt farmers everywhere in the world by depressing prices and flooding foreign markets; but hurt most of all, the rural families of the developing world, whose governments have fewer resources to fight back.

CONCLUSION

As we approach the President's visit, we have an opportunity at the dawn of the new century to begin to create closer economic partnership. Success will help Indian manufacturers find new markets, strengthen India's advantage in high technology, and support the incomes of Indian farmers; as it does these things for Americans as well.

Perhaps more significantly, India and the United States, are linked by shared aspirations and values that have helped us for half a century to rise above policy differences and disagreements; these aspirations and values can in the next half century help us build an open and fair world in which goods, capital and information flow freely across the globe, yielding improvements in health, literacy, and living standards for all the world's people. We have already largely succeeded in giving our populations the political voice that is their right as free persons in free society; we need to work together to similarly unlock their potential in a freer, more prosperous economy.

This is the opportunity before us; and let us make the most of it.

Thank you very much.